

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Alcona County Road Commission	County Alcona
Audit Date 12/31/05	Opinion Date 4/26/06	Date Accountant Report Submitted to State: 6/1/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|---|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature <i>Anderson Tackman & Co PLC</i>		Date 6/1/06	

ALCONA COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2005

ALCONA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Richard A. Karsen, Sr.
Chairman

Alfred J. Scully
Vice Chairman

Everett M. Schram
Member

Ronald A. Young, P.E.
Engineer/Manager

Patricia Whaley
Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Alcona County
301 N. Lake Street
Lincoln, MI 48742

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Alcona County Road Commission (a component unit of the County of Alcona, Michigan) as of and for the year ended December 31, 2005, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Alcona County Road Commission as of December 31, 2005, and the respective changes in financial position, were applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2006 on our consideration of the Alcona County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparisons are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alcona County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 26, 2006

Management's Discussion and Analysis

Using This Annual Report

The Alcona County Road Commission's Management's Discussion and Analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 13. The fund financial statements begin on page 31 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 145% from \$3.1 million to \$7.6 million for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

It is important for the reader to realize that the increase in net assets is largely a result of the road commission electing to report infrastructure assets from prior years in accordance with GASB Statement Number 34.

Net assets as of the year ended December 31, 2004 and 2005 are as follows:

	Governmental Activities <u>2004</u>	Governmental Activities <u>2005</u>
Current and Other Assets	\$ 1,848,007	\$ 1,523,173
Capital Assets	<u>2,939,675</u>	<u>7,317,683</u>
Total Assets	<u>4,787,682</u>	<u>8,840,856</u>
Current Liabilities	778,977	619,031
Long-Term Obligations	<u>916,764</u>	<u>634,980</u>
Total Liabilities	<u>1,695,741</u>	<u>1,254,011</u>
Net Assets		
Invested in Capital Assets, net of debt	2,020,864	6,639,440
Restricted for County Roads	<u>1,071,077</u>	<u>947,405</u>
Total Net Assets	<u>\$ 3,091,941</u>	<u>\$ 7,586,845</u>

A summary of changes in net assets for the year ended December 31, 2004 and 2005 are as follows:

	Governmental Activities 2004	Governmental Activities 2005
Program Revenues		
Charges for Services	\$ 570,441	\$ 570,020
Operating Grants	2,817,022	3,424,040
Contributions	615,773	806,963
Investment Earnings and Other	119,147	43,143
General Revenues		
Gain on Disposals	(13,166)	4,665
Total Revenues	4,109,217	4,848,831
Program Expenses		
Primary Roads	726,951	858,263
Local Roads	944,306	1,223,716
State Trunkline		
Maintenance	547,581	477,440
Net Equipment Expense	331,477	285,744
Administrative	272,134	326,143
Interest Expense and Other	66,984	159
Total Expenses	2,889,433	3,171,465
Increase in Net Assets	1,219,784	1,677,366
Net Assets – Beginning	1,872,157	5,909,479
Net Assets – Ending	\$ 3,091,941	\$ 7,586,845

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the general operations fund decreased by \$45 thousand as compared to a decrease of \$94 thousand in the fund balance for the prior year. Total revenues were \$4.97 million, an increase of \$858 thousand as compared to last year. This change in revenues resulted primarily from an increase in federal funding for specific projects.

Total expenditures were \$5.01 million, an increase of \$808 thousand as compared to last year. This change in expenditures is primarily the increase in road preservation costs.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2005 was lower than the actual receipts by \$207,000. This was due, in a large part, to the projection of road participation by townships and charges for services. Major improvements to county roads are undertaken on a cost participation basis with Alcona County's 11 townships. However, in setting the budget it is difficult to project what projects townships may wish to pursue in the coming year. However, State Trunkline Maintenance revenues exceeded the expected amount due to higher than anticipated winter maintenance expenses.

Road Commission expenditures were projected at \$5.4 million while actual expenditures were \$5.01 million. This resulted in total expenditures under budget by \$414 thousand. There were three items that account for most of the variance in the projection of the budget. A share of the variance is in the area of local road heavy maintenance. Expenditures for primary road heavy maintenance and routine maintenance were under budget as well. Road Commission staff projected that work in these two areas would be completed; however, weather and other factors combined to limit the amount of work that could be completed prior to year end.

The major primary road improvement undertaken in 2005 was the reconstruction of Hubbard Lake Road from Ritchie Road to Mt. Maria Road. This significant project was funded with a combination of Federal Surface Transportation funds, State Economic Development Category D funds, and local contributions from Hawes Township. Other major primary road projects included the reconstruction of 2.5 miles of Mt. Maria Road done in cooperation with Alcona Township, and one mile of Hubbard Lake Road between Swede Road and Spruce Road done in cooperation with Caledonia Township.

Other highlights of the year included hosting several sessions of Asset Management Training for Township officials and road commission staff. This subsequently included a condition assessment of all roads under the jurisdiction of the Alcona County Road Commission in cooperation with interested township officials.

Budgetary Highlights (Continued)

For this effort, the Alcona County Road Commission received an Excellence in Public Relations award from the County Road Association of Michigan for Outstanding Public Relations.

This road condition assessment resulted in the findings illustrated in the following tables.

Surface Type	Primary Miles	Local Miles	Total Miles
Asphalt-All Season	43.13	0.25	43.38
Asphalt-Standard	92.17	18.48	110.64
Sealcoat-Standard	53.94	119.87	173.80
Gravel-Standard	8.82	197.56	206.38
Graded Earth	8.47	166.57	175.05
Unimproved Earth	0.00	8.65	8.65
Total Miles	206.53	511.38	717.90

Surface Type	Primary %	Local %	Total %
Asphalt-All Season	20.9%	0.0%	6.0%
Asphalt-Standard	44.6%	3.6%	15.4%
Sealcoat-Standard	26.1%	23.4%	24.2%
Gravel-Standard	4.3%	38.6%	28.7%
Graded Earth	4.1%	32.6%	24.4%
Unimproved Earth	0.0%	1.8%	1.3%
Total Miles	100.0%	100.0%	100.0%

	10-8 V Good Miles	7-6 Good Miles	5-4 Fair Miles	3-1 Poor Miles	Miles by Type
Primary Road Condition					
Asphalt-All Season	6.95	36.18	0.00	0.00	43.13
Asphalt-Standard	6.97	52.22	24.44	8.54	92.17
Sealcoat-Standard	1.72	34.03	9.30	8.89	53.94
Gravel-Standard	0.00	4.01	4.81	0.00	8.82
Graded Earth	0.00	0.00	8.47	0.00	8.47
Unimproved Earth	0.00	0.00	0.00	0.00	0.00
Primary Miles	15.64	126.44	47.02	17.43	206.53

	10-8 V Good %	7-6 Good %	5-4 Fair %	3-1 Poor %
Primary Road Condition				
Asphalt-All Season	16.1%	83.9%	0.0%	0.0%
Asphalt-Standard	7.6%	56.7%	26.5%	9.2%
Sealcoat-Standard	3.2%	63.1%	17.2%	16.5%
Gravel-Standard	0.0%	45.4%	54.6%	0.0%
Graded Earth	0.0%	0.0%	100.0%	0.0%
Unimproved Earth	0.0%	0.0%	0.0%	0.0%
% of Primary Miles	7.6%	61.2%	22.8%	8.4%

Budgetary Highlights (Continued)

Local Road Condition	10-8 V Good Miles	7-6 Good Miles	5-4 Fair Miles	3-1 Poor Miles	Miles by Type
Asphalt-All Season	0.00	0.25	0.00	0.00	0.25
Asphalt-Standard	1.71	15.17	1.59	0.00	18.47
Sealcoat-Standard	3.68	63.61	28.76	23.81	119.86
Gravel-Standard	0.61	64.59	131.99	0.37	197.56
Graded Earth	0.00	3.50	157.98	5.10	166.58
Unimproved Earth	0.00	0.26	5.85	2.54	8.65
Local Miles	6.00	147.38	326.17	31.82	511.37

Local Road Condition	10-8 V Good %	7-6 Good %	5-4 Fair %	3-1 Poor %
Asphalt-All Season	0.0%	100.0%	0.0%	0.0%
Asphalt-Standard	9.3%	82.1%	8.6%	0.0%
Sealcoat-Standard	3.1%	53.1%	24.0%	19.9%
Gravel-Standard	0.3%	32.7%	66.8%	0.2%
Graded Earth	0.0%	2.1%	94.8%	3.1%
Unimproved Earth	0.0%	3.0%	67.6%	29.3%
% of Local Miles	1.2%	28.8%	63.8%	6.2%

In addition, the Road Commission negotiated a new labor contract with Teamsters Local 214 effective November 14, 2005 through June 30, 2009. Major elements of the agreement included significant reductions in health care costs through a change in health care plans and modest increases in wages and retirement benefits.

Capital Assets and Debt AdministrationCapital Assets

As of December 31, 2005, the road commission had \$14 million invested in capital assets as follows:

	<u>2004</u>	<u>2005</u>
Capital Assets Not Being Depreciated		
Land and Improvements	<u>\$ 709,545</u>	<u>\$ 1,576,434</u>
Other Capital Assets		
Buildings and Improvements	719,118	729,693
Road Equipment	4,356,199	4,553,589
Other Equipment	166,394	162,006
Depletable Assets	95,995	95,995
Infrastructure and Improvements	<u>869,286</u>	<u>7,125,783</u>
Total Capital Assets at Historic Cost	<u>6,206,992</u>	<u>12,667,066</u>
Total Accumulated Depreciation	<u>(3,976,862)</u>	<u>(6,925,817)</u>
Total Net Capital Assets	<u>\$ 2,939,675</u>	<u>\$ 7,317,683</u>

Current year's major additions included the following:

Buildings	<u>\$ 10,575</u>
Land Improvements	<u>\$ 866,889</u>
Various Resurfacing Projects	<u>\$ 1,046,296</u>
Trucks/Equipment	<u>\$ 349,997</u>

Debt Administration

The road commission currently has long-term debt in the amount of \$874 thousand which represents bonded construction projects, installment purchase agreements for heavy equipment, and vested employee benefits.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 70% of its revenues from the Michigan Transportation Fund or MTF. The MTF consists of state collected fuel taxes and vehicle registration fees. The portion of MTF that is distributed to county road commissions by the State of Michigan is based on such factors as mileage and population. Because of its limited population, Alcona County ranks 72nd of 83 counties in Michigan in MTF fund allocations. The recent economic downturn has resulted in less consumption of fuel and some diversion of MTF revenues to other Michigan Departments; consequently less Michigan Transportation Funds were available for distribution.

The Board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Alcona County's 727 mile transportation system. Therefore, the Board attempts to manage the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

Major improvement projects planned for 2006 is reconstruction of 6 miles of Ritchie Road from Hubbard Lake Road to Lincoln in Hawes Township and the replacement of the Bridge on F30 crossing Van Etten Creek in Mikado Township.

Additional road improvement projects are anticipated pending discussion with township officials.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Alcona County Road Commission administrative offices at 301 N. Lake Street, PO Box 40, Lincoln, Michigan 48742 or by phone 989-736-8168, or by email at Alcona00@chartermi.net.

Basic Financial Statements

Alcona County Road Commission

Statement of Net Assets December 31, 2005

ASSETS

Current Assets:

Cash and Equivalents	\$ 773,113
Accounts Receivable:	
Michigan Transportation Fund	393,649
Due from Other Units	2,227
Sundry Accounts	6,347
Trunkline Maintenance	70,915
Inventories:	
Road Materials	193,948
Equipment, Parts and Materials	82,974

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>7,317,683</u>
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Total Assets	<u><u>\$ 8,840,856</u></u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 33,892
Due to Other Units	20,000
Accrued Liabilities	28,341
Advances from State	217,422
Deferred Revenue	75,505
Interest Payable	5,200
Bonds Payable	195,000
Installment Purchase Agreements Payable	43,671

Noncurrent Liabilities:

Vested Employee Benefits	200,608
Installment Purchase Agreements Payable	<u>434,372</u>

Total Liabilities	<u>1,254,011</u>
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NET ASSETS

Invested in Capital Assets -

Net of Related Debt	\$ 6,639,440
Restricted for County Roads	<u>947,405</u>

Total Net Assets	<u><u>\$ 7,586,845</u></u>
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Alcona County Road Commission

Statement of Activities For the Year Ended December 31, 2005

Program Expenses	
Primary Road	\$ 858,263
Local Road	1,223,716
State Trunkline Maintenance	477,440
Net Equipment Expense	285,744
Net Administrative Expense	326,143
Other	(39,279)
Interest Expense	<u>39,438</u>
Total Program Expenses	<u>3,171,465</u>
Program Revenues	
License and Permits	13,325
Federal Grants	674,380
State Grants	2,749,660
Contributions from Local Units	806,963
Charges for Services	556,695
Investment Earnings and Other	<u>43,143</u>
Total Program Revenues	<u>4,844,166</u>
Net Program Revenues	<u>1,672,701</u>
General Revenue	
Gain on Equipment Disposal	<u>4,665</u>
Total General Revenues	<u>4,665</u>
Change in Net Assets	1,677,366
Net Assets	
Beginning of Year	3,091,941
Prior Period Adjustment	<u>2,817,538</u>
End of Year	<u><u>\$ 7,586,845</u></u>

Alcona County Road Commission

Balance Sheet December 31, 2005

	Governmental Fund Type General Operating Fund
<u>ASSETS</u>	
Cash and Equivalents	\$ 773,113
Accounts Receivable	
Michigan Transportation Fund	393,649
State Trunkline Maintenance	70,915
Due from Other Units	2,227
Sundry Accounts	6,347
Inventories	
Road Materials	193,948
Equipment, Parts, and Materials	<u>82,974</u>
Total Assets	<u>\$ 1,523,173</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 33,892
Accrued Liabilities	28,341
Due to Other Units	20,000
Advances from State	217,422
Deferred Revenue	<u>75,505</u>
Total Liabilities	<u>375,160</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>1,148,013</u>
Total Fund Equities	<u>1,148,013</u>
Total Liabilities and Fund Equities	<u>\$ 1,523,173</u>

**Reconciliation of the Balance Sheet Fund
Balance to the Statement of Net Assets
For the Year Ended December 31, 2005**

Total Governmental Fund Balance	\$ 1,148,013
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,317,683
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(873,651)
Interest expense accrual, due in following year.	<u>(5,200)</u>
Net Assets of Governmental Activities	<u>\$ 7,586,845</u>

**Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended December 31, 2005**

	<u>General Operating Fund</u>
Revenues	
License and Permits	\$ 13,325
Federal Sources	674,380
State Sources	2,749,660
Contributions from Local Units	806,963
Charges for Services	550,328
Interest and Rents	35,947
Other Revenue	<u>136,394</u>
Total Revenues	<u>4,966,997</u>
Expenditures	
Public Works	4,841,206
Capital Outlay	(109,430)
Debt Service	<u>280,006</u>
Total Expenditures	<u>5,011,782</u>
Excess of Revenues Over (Under) Expenditures	(44,785)
Fund Balance – January 1, 2005	<u>1,192,798</u>
Fund Balance – December 31, 2005	<u>\$ 1,148,013</u>

Alcona County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2005

Net Change in Fund Balance – Total Governmental Funds	\$ (44,785)
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Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,560,470
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Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	240,568
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Decrease in revenues related to special assessments, which is recognized as revenue in the year of assessment.	(118,166)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	<u>39,279</u>
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Change in Net Assets of Governmental Activities	<u>\$ 1,677,366</u>
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**Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005**

	<u>Pension Trust Fund</u>
ASSETS:	
Cash & Investments	
Restricted	\$ <u>760,862</u>
 TOTAL ASSETS	 \$ <u><u>760,862</u></u>
NET ASSETS:	
Held in Trust for Pension Benefits	\$ <u><u>760,862</u></u>

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2005**

	<u>Pension Trust Fund</u>
ADDITIONS:	
Contributions:	
Employer	\$ <u>44,840</u>
Investment Earnings:	
Interest & Dividend Income	30,073
Net Appreciation Fair Value	<u>16,618</u>
Total Investment Earnings	<u>46,691</u>
Total Additions	<u>91,531</u>
DEDUCTIONS:	
Distributions of Benefits	<u>132,550</u>
Total Deductions	<u>132,550</u>
Change in Net Assets	(41,019)
Net Assets – Beginning of Year	<u>801,881</u>
Net Assets – End of Year	<u><u>\$ 760,862</u></u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alcona County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Alcona County Road Commission.

A. Reporting Entity

The adoption of a county road system was authorized by Act 283 of 1909 (MCL 224.1). On June 24th, 1919, the Board of Supervisors for Alcona County adopted a resolution for a special election on August 28th to decide "Shall the County Road System be adopted by the County of Alcona." On August 28th, 1919, voters of Alcona County approved adoption of the County Road System on a vote of 589 yes and 322 no. The first Board of Road Commissioners was appointed by the Board of Supervisors on October 15th, 1919. The County Road Commission operates under a Board of County Road Commissioners of three (3) members which appoints a manager/engineer to administer the county road system. The Board of County Road Commissioners is elected biannually for the full term of six (6) years. The Road Commission services public roads throughout the County of Alcona, Michigan. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Alcona County Road Commission, a discretely presented component unit of Alcona County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Alcona County Road Commission. There is only one major fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are recorded at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Alcona County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 allows major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Alcona County Road Commission has capitalized qualifying road improvements since 2004 forward. The Road Commission may capitalize roads retroactively until December 31, 2008, should it choose to do so. In 2005, the Road Commission capitalized all Bridge Projects retroactively. The Alcona County Road Commission has capitalized the current year's infrastructure, as required by GABS Statement 34, and has reported the infrastructure assets in the statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Land Improvements	3 to 20 years
Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Special Assessments

The Commission collects special assessments from adjacent property owners for improvements to the local road systems. The assessments are a fixed amount of \$ 118,166 per year plus interest and expired in 2005.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYBudgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (manager) and fiscal officer prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgeted appropriations lapse at year end.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows:

	Final Amended Budget	Actual	Variance
State Trunkline	\$ 464,426	\$ 477,440	\$ 13,014

NOTE 3 - CASH AND DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

NOTE 3 - CASH AND DEPOSITS (Continued)

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking)	\$ -	\$ 182,788

Interest rate risk. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

Custodial credit risk. Investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the commission's \$772,863 investments, \$772,863 are not in the name of the Commission, but in the name of the agent. Investing activities are performed in accordance with the County of Alcona's investment policy.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$82,788 of the Commission's bank balance of \$182,788 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Alcona County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Alcona County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Alcona County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Alcona County Road Commission for the current year was as follows:

	Beginning Balances 01/01/05	Additions	Adjustments/ Deductions	Ending Balances 12/31/05
Capital Assets Not Being Depreciated				
Land	\$ 91,689	\$ -	\$ -	\$ 91,689
Land Improvements - Infrastructure	<u>617,856</u>	<u>866,889</u>	<u>-</u>	<u>1,484,745</u>
Subtotal	<u>709,545</u>	<u>866,889</u>	<u>-</u>	<u>1,576,434</u>
Capital Assets Being Depreciated				
Land Improvements	65,691	-	-	65,691
Buildings	653,427	10,575	-	664,002
Road Equipment	4,356,199	347,511	150,121	4,553,589
Shop Equipment	54,904	2,186	-	57,090
Office Equipment	93,838	300	6,874	87,264
Engineers' Equipment	17,652	-	-	17,652
Depletable	95,995	-	-	95,995
Infrastructure - Bridge	5,210,201	-	-	5,210,201
Infrastructure - Roads	<u>869,286</u>	<u>1,046,296</u>	<u>-</u>	<u>1,915,582</u>
Subtotal	<u>11,417,193</u>	<u>1,406,868</u>	<u>156,995</u>	<u>12,667,066</u>
Less Accumulated Depreciation				
Land Improvements	65,690	-	-	65,690
Buildings	358,912	35,034	-	393,946
Road Equipment	3,316,554	425,547	151,855	3,590,246
Shop Equipment	45,700	3,159	-	48,859
Office Equipment	79,554	5,008	6,566	77,996
Engineers' Equipment	14,457	945	-	15,402
Depletable	95,995	-	-	95,995
Infrastructure - Bridges	2,394,398	131,907	-	2,526,305
Infrastructure - Roads	<u>-</u>	<u>111,378</u>	<u>-</u>	<u>111,378</u>
Subtotal	<u>6,371,260</u>	<u>712,978</u>	<u>158,421</u>	<u>6,925,817</u>
Net Capital Assets Being Depreciated	<u>5,045,933</u>	<u>693,890</u>	<u>1,426</u>	<u>5,741,249</u>
Total Net Capital Assets	<u>\$ 5,755,478</u>	<u>\$ 1,560,779</u>	<u>\$ 1,426</u>	<u>\$ 7,317,683</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense as charged to operations of the Alcona County Road Commission as follows:

Primary Road - Maintenance	\$ 108,200
Local Road - Maintenance	135,085
Equipment Expense	425,547
Administrative	5,953
Allocated	<u>38,193</u>
Total Depreciation Expense	<u>\$ 712,978</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS

The Alcona County Road Commission contributes to the Alcona County Road Commission Retirement Plan, which is a defined contribution pension plan, fully funded through American Funds. The Board of Road Commissioners is the trustee of the plan and therefore the activity of the plan is presented as a pension trust fund.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account. Contributions made by the Road Commission are vested at 100% immediately. The Road Commission is required to contribute an amount equal to 4% of the employee's gross earnings. Effective November 14, 2005, this contribution was increased to 5% in accordance with Article 11 of a new labor agreement negotiated with Teamsters Local 214. Employees are not required to make contributions. The Road commission made contributions in 2005 totaling \$44,840 based on employee wages of \$1,186,687. There are currently 32 employees included in the plan.

The Alcona County Road Commission Retirement Plan held no securities in or loans to parties related to the plan. The financial information for the pension plan was available through the American Funds annual statement as of December 31, 2005 for presentation in the basic financial statements.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2005, the federal aid received and expended by the Road Commission was \$674,380 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (included in MDOT's single audit). Local federal force account projects are projects where the road commission performs the work and would be subject to single audit requirements if they expended \$500,000 or more in federal funds.

NOTE 8 - LONG-TERM DEBT

The follow is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
BONDS PAYABLE:					
Michigan Transportation Fund Bonds Payable – Series 2001, principal due in variable annual installments, variable semi- annual interest payments at rate of 4.0% to 4.25%, due August 2006.	\$ 390,000	\$ -	\$ 195,000	\$ 195,000	\$ 195,000
NOTES PAYABLE:					
Installment payable to Finance Company, 3.76% interest rate, payable in monthly installments of \$1,363, secured by equipment.	131,133	-	12,002	119,131	12,185
Installment payable to Finance Company, 3.5% interest rate, payable in monthly installments of \$994, secured by equipment.	100,429	-	8,564	91,865	8,855
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,607, secured by equipment.	154,403	-	14,074	140,329	11,799
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,465 secured by equipment.	137,646	-	10,928	126,718	10,832
Vested Employee Benefits (1)	<u>239,887</u>	<u>-</u>	<u>39,279</u>	<u>200,608</u>	
TOTAL	<u>\$ 1,153,498</u>	<u>\$ -</u>	<u>\$ 279,847</u>	<u>\$ 873,651</u>	

NOTE 8 - LONG-TERM DEBT (Continued)

The employee policies regarding the accumulation and payment of vested employee benefits are as follows:

Vacation – Maximum carry-forward is 10 days each year. Unused vacation pay will be paid at current rates at date of employment separation. \$32,770 was accrued at year end and recorded as a liability.

Sick Leave – A maximum of 114 days can be accumulated. Unused sick leave will be paid at current rates at date of separation to 75% upon retirement, 50% upon death, and 25% upon separation with 10 years seniority. \$167,838 was accrued at year end.

(1) The change in compensated absences is shown as a net reduction.

Annual principal debt service requirements for the Notes Payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 43,671	\$ 21,466
2007	45,700	19,436
2008	<u>388,672</u>	<u>16,355</u>
Total	<u>\$ 478,043</u>	<u>\$ 57,257</u>

	MTF Series 2001 Bonds	
	<u>Principal</u>	<u>Interest</u>
Bonds Payable:		
2006	\$ 195,000	\$ 7,800
Total Bonds Payable	<u>\$ 195,000</u>	<u>\$ 7,800</u>

NOTE 9 - POST EMPLOYMENT BENEFITS

In addition to pension benefits, the County Road Commission provided post-employment health care insurance benefits to all retired employees by a group insurance plan. The benefits were provided in accordance with articles of the union agreement; and coverage was similar to then current employee coverage which ceased in November 2005 with a new labor agreement. The Commission submitted payments to the health insurance provider for retiree premiums on a monthly basis. These premiums are reimbursed by the retiree in the following month. Total premiums submitted on behalf of four retirees was \$39,386. Effective November 14, 2005, the Road Commission increased its contribution for retired employees at age 62, 63, or 64 from \$400 per year to \$1,000 per year for hospital, medical, and life insurance purposes until the retiree reaches age 65 in accordance with Article 19, section 4 a new Labor Agreement negotiated with Teamsters Local 214.

NOTE 10 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. The amount of equipment advance for fiscal 2005 was \$174,226.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants for specific projects and purposes. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2005.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

State Maintenance Audit – The Road Commission State Maintenance Agreements for 2003 and 2004 are currently under audit by the Michigan Department of Transportation in accordance with the contract. These audits may result in amounts owing to the Department; however, management does not believe these amounts will be significant.

NOTE 12 - SUBSEQUENT EVENTS

After fiscal year end, the Commission authorized equipment purchases in the amount of \$141,000. Additionally in March 2006, the Commission executed a State Infrastructure Loan in the amount of \$1,000,000 at 3%, annual installments of \$269,027, for improvements to Ritchie Road.

NOTE 13 - PRIOR PERIOD ADJUSTMENTS

The Commission elected to record specific items of Infrastructure in accordance with provisions of GASB Statement Number 34 amounting to \$5,211,936. Relative accumulated depreciation of these assets was \$2,394,398 resulting in an adjustment to beginning net assets for \$2,817,538.

Required Supplemental Information

Alcona County Road Commission

Required Supplemental Information Budgetary Comparison Schedule Statement of Revenues – Budget and Actual For the Year Ended December 31, 2005

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits	\$ -	\$ -	\$ 13,325	\$ 13,325
Federal Sources				
Surface Transportation Program	767,200	688,021	674,380	(13,641)
State Sources				
Michigan Transportation Fund	2,893,820	2,704,515	2,749,660	45,145
Contributions from Local Units	600,000	786,171	806,963	20,792
Charges for Services	441,000	462,634	550,328	87,694
Interest and Rents	8,000	24,000	35,947	11,947
Other Revenue	<u>108,500</u>	<u>94,656</u>	<u>136,394</u>	<u>41,738</u>
Total Revenue	<u>\$ 4,818,520</u>	<u>\$ 4,759,997</u>	<u>\$ 4,966,997</u>	<u>\$ 207,000</u>

Alcona County Road Commission**Required Supplemental Information
Budgetary Comparison Schedule
Statement of Expenditures – Budget and Actual
For the Year Ended December 31, 2005**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road				
Preservation	\$ 1,823,000	\$ 1,597,327	\$ 1,444,452	\$ 152,875
Maintenance	793,000	751,045	750,062	983
Local Road				
Preservation	513,000	483,182	468,735	14,447
Maintenance	962,000	1,126,188	1,088,630	37,558
State Trunkline				
Maintenance and Nonmaintenance	504,000	464,426	477,440	(13,014)
Equipment Expense – Net	294,837	344,384	285,744	58,640
Administrative Expense – Net	319,175	334,406	326,143	8,263
Capital Outlay – Net	117,000	48,574	(109,430)	158,004
Debt Service				
Principal	195,000	240,602	240,568	34
Interest	<u>15,600</u>	<u>35,338</u>	<u>39,438</u>	<u>(4,100)</u>
Total Expenditures	5,536,612	5,425,472	<u>\$ 5,011,782</u>	<u>\$ 413,690</u>
Fund Balance – January 1, 2005	<u>1,192,798</u>	<u>1,192,798</u>		
Total Budget	<u>\$ 6,729,410</u>	<u>\$ 6,618,270</u>		

Alcona County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,888,877	\$ 1,492,072	\$ 586,048	\$ 4,966,997
Total Expenditures	<u>2,515,499</u>	<u>1,925,353</u>	<u>570,930</u>	<u>5,011,782</u>
Excess of Revenues Over (Under) Expenditures	373,378	(433,281)	15,118	(44,785)
Other Financing Sources (Uses) Optional Transfers In (Out)	<u>(433,281)</u>	<u>433,281</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(59,903)	-	15,118	(44,785)
Fund Balance – January 1, 2005	<u>755,812</u>	<u>-</u>	<u>436,986</u>	<u>1,192,798</u>
Fund Balance – December 31, 2005	<u>\$ 695,909</u>	<u>\$ -</u>	<u>\$ 452,104</u>	<u>\$ 1,148,013</u>

Alcona County Road Commission**Analysis of Revenues
For the Year Ended December 31, 2005**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits	\$ -	\$ -	\$ 13,325	\$ 13,325
Federal Sources				
Surface Transportation Program	674,380	-	-	674,380
State Sources				
Michigan Transportation Fund				
Engineering	6,003	3,997	-	10,000
Urban Road	55,701	18,373	-	74,074
Allocation	1,441,828	975,162	-	2,416,990
Snow Removal	22,295	-	-	22,295
Forest Road	226,301	-	-	226,301
Contributions from Local Units				
Township	440,569	366,394	-	806,963
Charges for Services				
State Trunkline	-	-	547,685	547,685
Salvage Sales	-	-	2,231	2,231
Other	-	-	412	412
Interest and Rents	17,645	4,492	13,810	35,947
Other Revenue				
Special Assessments	-	123,642	-	123,642
Gain on Disposals	4,155	12	498	4,665
Miscellaneous	-	-	8,087	8,087
Total Revenue	<u>\$ 2,888,877</u>	<u>\$ 1,492,072</u>	<u>\$ 586,048</u>	<u>\$ 4,966,997</u>

Alcona County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 1,444,452	\$ -	\$ -	\$ 1,444,452
Maintenance	750,062	-	-	750,062
Local Road				
Preservation	-	1,088,630	-	1,088,630
Maintenance	-	468,735	-	468,735
State Trunkline	-	-	477,440	477,440
Equipment Expense – Net	76,122	142,929	66,693	285,744
Administrative Expense – Net	190,765	135,378	-	326,143
Capital Outlay – Net	(97,458)	(274)	(11,698)	(109,430)
Debt Service				
Debt Principal Payments	132,131	78,300	30,137	240,568
Interest Expense	<u>19,425</u>	<u>11,655</u>	<u>8,358</u>	<u>39,438</u>
Total Expenditures	<u>\$ 2,515,499</u>	<u>\$ 1,925,353</u>	<u>\$ 570,930</u>	<u>\$ 5,011,782</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Alcona County Road Commission
301 N. Lake Street
Lincoln, Michigan 48742

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Alcona County Road Commission as of and for the year ended December 31, 2005, which collectively comprise the Alcona County Road Commission's basic financial statements and have issued our report thereon dated April 26, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alcona County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Alcona County Road Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Responses as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alcona County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, as listed in the accompanying Schedule of Findings and Responses as item 05-2.

We also noted certain additional matters that we reported to management of the Alcona County Road Commission, in a separate letter dated April 26, 2006.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 26, 2006

FINDING – FINANCIAL STATEMENT AUDIT

Reportable Conditions – Internal Control

Segregation of Duties

Finding 05-1

Statement of Condition/Criteria: The Road Clerk performs several functions of receipting, disbursing, and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.

Cause of Condition: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Management's Response: The board has implemented compensating controls to reduce the risks discussed above.

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 05-2

Condition: Our examination of procedures used by the county road to adopt and maintain operating budgets for the county road's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Commission's 2005 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2005 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 32 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Recommendation: We recommend that the county road's chief administrative officer (manager) and personnel responsible for administering the activities of the various funds of the county road, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response—Corrective Action Plan: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Alcona County Road Commission**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2005**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Project Number	Federal Expenditures
U.S. Department of Transportation:				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT)				
Hubbard Lake Road from Ritchie Road to Mt. Maria Road	20.205	EDDF 01555	77461	\$ 668,421
Trask Lake Road	20.205	STP 0401(306)	74240	<u>5,959</u>
Subtotal MDOT Administered				<u>674,380</u>
Total U.S. Department of Transportation:				<u>674,380</u>
Total Expenditures of Federal Awards				<u>\$ 674,380</u>



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REPORT TO MANAGEMENT

Members of the Board
Alcona County Road Commission
Lincoln, MI 48742

We have audited the financial statements of the Alcona County Road Commission for the year ended December 31, 2005, and have issued our reports thereon dated April 26, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Alcona County Road Commission. Such considerations were solely for the purpose of determining audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Alcona County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

In planning and performing our audit of the financial statements, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management to the financial statements.

Reportable conditions:

- 1) Lack of segregation of duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

Significant Accounting Policies

Management is responsible for the selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Alcona County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Alcona County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. The Commission did record bridge infrastructure assets during 2005.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements was depreciation expense and infrastructure costs.

Management's estimate of the capital asset amounts is based on Treasury Bulletins. We evaluated the key factors and assumptions used to develop the amounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Alcona County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Alcona County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Alcona County Road Commission's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Alcona County Road Commission or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Alcona County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Vested Sick Calculation: (Prior)

Provisions related to the implementation of GASB Statement #34 require that only vested sick pay be recorded. This will require the Commission to calculate and record future sick pay liabilities at the vesting schedule indicated in the union contract based on termination, death, or seniority.

Status: Corrected.

Infrastructure Reporting: (Prior)

The Commission should adopt a capitalization threshold for recording infrastructure amounts of \$5,000 or \$10,000 in accordance with GASB requirements.

Status: The Board anticipates adopting a policy to address this issue in 2006.

Parts Management

Cogitate software utilized by the Commission, has a parts management module which would assist in the purchasing, inventory, and usage reporting, of parts and other nonstock inventory items. Implementation of this software would increase internal control over parts management and eliminate redundant inventory procedures currently in practice. We strongly recommend the implementation of inventory software.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension

In June 2004, the GASB issued Statements 45, which establishes standards for the measurement recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The statement is implemented in three phases, with the Alcona County Road Commission being required to implement the Statement for the year ended December 31, 2009. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the Road Commission will be required to pay for these benefits. Beginning in 2009, the Road Commission will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Board of Commissioners and management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Alcona County Road Commission, the cognizant audit agencies and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson, Tackman & Co., PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

April 26, 2006